April 3, 2009

Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Submitted By: e-mail to regcomments@ncua.gov

Dear Members of the Board,

Thank you for the opportunity to respond to the request for comments regarding the role corporate credit unions in the future. I am the president of a $100 million credit union located in independence, Missouri. For the past ten years I have also served on our Corporate Credit Union's Board and am familiar with the corporate network.

First it would be my recommendation that the NCUA form a committee to review all the ANPR's and make a recommendation to the Board. The committee should include representatives from the NCUA, the ACCU, Corporate Credit Unions and Natural Person Credit Unions. The goal is to create a Corporate system that is beneficial to all.

Executive Summary on the Role of Corporates in the Credit Union System.

Payment systems

- Corporates' need to provide both payment services and investment services to be successful.

Liquidity and liquidity management

- The liquidity function should be the primary goal, but do not limit the other types of products and services the corporates offer.

Field of Membership (FOM) Issues

- Require natural person credit unions to contribute capital to a corporate as a condition of membership.
- National or Regional Field of Memberships so natural person credit unions can continue to have a choice of where they do business.

Expanded Investment Authority, Permissible Investments

- Only at the national level with U.S. Central (or equivalent).
- Flexibility to ensure that Overnight Funds can be provided to member credit unions.

- The investment options should remain substantially unchanged as to the type of security that can be purchased, but redefine the concentration limits to reduce the risk.
- Ability to invest in private labeled asset backs or other “more risky” investments should be limited to the corporate’s undivided earnings and regular reserves.
- Be careful not to tighten the investment policy so much that the corporate can not offer competitive rates.

<u>Structure; two-tiered system</u>
- The current structure of corporates is sound and does not need to be dramatically altered.
- One national corporate (U.S, Central or equivalent) with expanded investment authority.
- No other corporate would have expanded authority.
- The other corporates would be “pass-thru” corporates which could offer services to their members.
- Natural person credit unions would still have the flexibility of choosing what corporate best suited their needs.

<u>Corporate Capital (Core, Membership Capital)</u>
- Require natural person credit union’s to have Membership Shares as a condition of membership.
- Consider allowing third parties to purchase non-voting capital with an aggregate total not to exceed 49% of total capital and the individual organization not to exceed 10%.
- Standardized the membership share calculation requirements to be consistent among each “pass-thru” corporate.
- Risk based capital would not be needed under this scenario.
- Restructure Membership Shares so they qualify as core capital.
- Retain 2 year share insurance guarantee on natural person credit unions deposits in corporates until an adequate capital base is established.

<u>Credit Risk Management</u>
- Rating agencies need to be independent of the companies they are rating securities for.
- Additional review of securities should be performed to ensure Rating agencies accuracy.

<u>Asset Liability Management</u>
- Reinstate the requirement for modeling and stress testing net interest income and require modeling and testing of credit spread increases.
- Establish an external investment review committee to review risk exposure in the investment portfolio and investment policies.

<u>Corporate Governance</u>
- US Central’s board should be limited to natural person credit unions and corporate credit unions.

- Board and committee members should NOT be paid (it didn't do the banks any good).
- Do not require term limits, it eliminates experience.
- Unnecessary to disclose executive compensation.
- Develop a mandatory training program for the directors and committee members.

The Role of Corporates in the Credit Union System.

<u>Payment system</u>

- *Corporates' need to provide both payment services and investment services to be successful.*

It would be difficult to separate the payment services and the investment services with much success. Separation would add additional overhead to both processes and potentially raise the cost of providing payment services to a non-competitive level. Maintaining both allows the payment systems to be subsidized by the investment services function.

<u>Liquidity and liquidity management</u>

- *The liquidity function should be the primary goal, but do not limit the other types of products and services the corporates offer.*

Liquidity is king, but the corporates provide the focal point for their credit unions, especially the smaller ones, to concentrate their buying power. Vendors' price better for increased volume and the corporates can create opportunities to save money by aggregating several credit unions into a service. By eliminating this, credit unions would have to try and organize this on there own. This may be difficult for the small to medium size credit unions to achieve because of their limited resources.

<u>Field of Membership (FOM) Issues</u>

- *Require natural person credit unions to contribute capital to a corporate as a condition of membership.*
- *National or Regional Field of Memberships so natural person credit unions can continue to have a choice of where they do business*.

Rate competition among corporates was one of the principal factors contributing to the current situation. By establishing one US Central equivalent with expanded authority we eliminate much of the problems created by the rate competition. Corporates would still compete on their product offerings, their member services satisfaction levels, and convenience.   This still allows Natural Person Credit Unions to select their Corporate based on which one best suited their operational style.

Credit unions should be required to contribute capital to a corporate as a condition of joining a corporate. By requiring ownership you encourage credit unions to use their corporate(s), because they have a vested interest in their success.

I prefer a national field of membership over a regional because I think credit unions should have the ability to choose the corporate that best suits their needs.

Expanded Investment Authority, Permissible Investments

- *Only at the national level with U.S. Central (or equivalent).*
- *Flexibility to ensure that Overnight Funds can be provided to member credit unions.*
- *The investment options should remain substantially unchanged as to the type of security that can be purchased, but redefine the concentration limits to reduce the risk.*
- *Ability to invest in private labeled asset backs or other "more risky" investments should be limited to the corporate's undivided earnings and regular reserves.*
- *Be careful not to tighten the investment policy so much that the corporate can not offer competitive rates.*

The bullet points pretty much address my opinion in this area. The events causing this problem were extreme to say the least and steps need to be taken to ensure that it doesn't happen again. However, I stress caution so that we do not tighten our policies to the extent of becoming inflexible and making the corporates uncompetitive.

Structure; two-tiered system

- *The current structure of corporates is sound and does not need to be dramatically altered.*
- *One national corporate (U.S, Central or equivalent) with expanded investment authority.*
- *No other corporate would have expanded authority.*
- *The other corporates would be "pass-thru" corporates which could offer services to their members.*
- *Natural person credit unions would still have the flexibility of choosing what corporate best suited their needs.*

The two-tiered system should be retained and corporates should be operated as "pass-through" corporates. The "pass through" system allows the system to concentrate the risk at the national level (US Central or equivalent) making the system easier to regulate. Credit unions are able to choose which "pass thru" corporate they want to do business with and have more input into its operations. That choice doesn't exist in the one-tier system and I fear that small to medium sized credit unions could be lost in the shuffle.

Corporate Capital (Core, Membership Capital)

- *Require natural person credit union's to have Membership Shares as a condition of membership.*
- *Consider allowing third parties to purchase non-voting capital with an aggregate total not to exceed 49% of total capital and the individual organization not to exceed 10%.*
- *Standardized the membership share calculation requirements to be consistent among each "pass-thru" corporate.*
- *Risk based capital would not be needed under this scenario.*
- *Restructure Membership Shares so they qualify as core capital.*

- *Retain 2 year share insurance guarantee on natural person credit unions deposits in corporates until an adequate capital base is established.*

With the loss of capital within the corporate system it will be very difficult to persuade members to purchase membership shares and impossible to get them to purchase PIC. Once the situation stabilizes, then credit unions may be willing to reinvest in the corporate system. <u>In the interim NCUA should relax capital requirements to the remaining capital at the corporates for the near term, letting corporates rebuild membership capital over a period of years.</u> Capital requirements could be lower due to the reduced risk in the investment portfolios occurring from:

- One Corporate (U.S Central or its equivalent) with expanded authority.
- Re-evaluation of the concentration levels in anyone investment.
- The restriction on purchasing asset backs detailed earlier.

In the end, Credit Unions should be required to have membership shares in any corporate they are doing business with. In order to encourage credit unions the NCUA will need to continue to insure a natural person credit unions deposits at a corporate on a rolling 2 year basis as they are doing now. The insurance will give "pass thru" corporates a competitive advantage and encourage credit unions recapitalize the corporates. By requiring ownership you encourage credit unions to use their corporate(s), because they have a vested interest in their success.

Membership shares should be standardized so that capital calculations will be consistent and comparable throughout the system. Also, they should be restructured so they are considered core capital this will help eliminate some of the confusion over the different capital ratios in the corporate system.

Allowing third party non-voting capital (permanent or temporary) to be sold could also help to re-establish capital more quickly. Credit union vendors who have a stake in our survival may be willing to invest in the movement plus if the returns are adequate other investors may also input funds. Theses investments should be restricted as stated above.

<u>Credit Risk Management</u>

- *Rating agencies need to be independent of the companies they are rating securities for.*
- *Additional review of securities should be performed to ensure Rating agencies accuracy.*

This area is the one I'm least familiar with, but it would seem that the current ratings organization did a poor job of evaluating securities and that they are paid by the very companies that put the investments together. It would seem that some type of oversight is required similar to the NCUA to ensure proper standards for underwriting are followed. Until this is achieved, it seems prudent that credit unions perform additional testing to ensure the securities composition.

Asset Liability Management

- *Reinstate the requirement for modeling and stress testing net interest income and require modeling and testing of credit spread increases.*
- *Establish an external investment review committee to review risk exposure in the investment portfolio and investment policies.*

Any additional steps that will help avoid a repeat of the current situation will be helpful. Again I would caution that we do not over regulate this area and keep the testing reasonable and cost effective.

Establishing an investment oversight committee of individuals who are experienced and qualified to evaluate complex investments and the policies that govern them may help ensure that the U.S. Central equivalent's policies and portfolio stay at an acceptable risk level. This may need to be a committee that includes at least some outside expertise and may require that the members are compensated. It should report directly to the Board, much like an internal auditor.

Corporate Governance

- *US Central's board should be limited to natural person credit unions and corporate credit unions.*
- *Board and committee members should NOT be paid (it didn't do the banks any good).*
- *Do not require term limits, it eliminates experience.*
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Non-credit union entities should not be represented on US Central's board. US Central's board should be limited to the owners, meaning natural person credit unions and corporate credit unions. As a part of the credit union philosophy, the boards have always been volunteer and should remain so. Many other institutions, who have a paid Board are in worse trouble and I can not see that paying them would have changed the outcome any.

Term limits are a double edged sword, so I believe it is best to avoid them. More problems may occur if you have a good qualified board member who is term limited out and replaced by someone who is not as familiar with the organization.

I also believe it's unnecessary to reveal executive compensation; it only leads to second guessing. Everyone tries to relate what someone else makes based on what they make. The jobs are not the same and it is hard for someone outside of the job to evaluate this. I would recommend that the board commission an outside compensation study to determine a fair and equitable salary for the executive management and a formal review process.

Board/ committee members should be required to complete a comprehensive education program before they assume their responsibilities. This should help them to understand their role in the organization and what they are responsible for.

Conclusion

I understand that there are many difficult choices to be made in the near future regarding the corporate credit union system and I wish you the best in implementing the changes. Ultimately, we need a corporate system that serves all credit unions, small, medium and large. Please resist the temptation to use a sledge hammer when all that is needed is a regular hammer.

Thank you for the opportunity to comment on these issues facing the credit union movement.

Sincerely,

Chris McCreary
President
United Consumers Credit Union